

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION |) | |
| OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF |) | CASE NO. |
| LOUISVILLE GAS AND ELECTRIC COMPANY AS BILLED |) | 96-290 |
| FROM NOVEMBER 1, 1995 TO APRIL 30, 1996 |) | |

ORDER

On April 6, 1995, the Commission approved Louisville Gas and Electric Company's ("LG&E") environmental surcharge application and established a surcharge mechanism.¹ Pursuant to KRS 278.183(3), at six-month intervals, the Commission must review the past operations of the environmental surcharge. After hearing, the Commission may, by temporary adjustment in the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to KRS 278.183(1). The Commission hereby initiates the six-month review of LG&E's environmental surcharge as billed from November 1, 1995 to April 30, 1996.²

¹ Case No. 94-332, The Application of Louisville Gas and Electric Company for Approval of Compliance Plan and to Assess a Surcharge Pursuant to KRS 278.183 to Recover Costs of Compliance with Environmental Requirements for Coal Combustion Wastes and By-Products, final Order dated April 6, 1995.

² Since LG&E's surcharge is billed on a two-month lag, the amounts billed from November 1995 through April 1996 are based on costs incurred from September 1995 through February 1996.

In anticipation that those parties to LG&E's last six-month review will desire to participate in this proceeding, the Attorney General's Office ("AG") and the Kentucky Industrial Utility Customers ("KIUC") will be deemed parties to this proceeding.

IT IS THEREFORE ORDERED that:

1. The procedural schedule set forth in Appendix A, attached hereto and incorporated herein, shall be followed in this proceeding.

2. LG&E shall appear at the Commission's offices on the date set forth in Appendix A, to submit itself to examination on the application of its environmental surcharge as billed to consumers from November 1, 1995 through April 30, 1996.

3. LG&E shall give notice of the hearing in accordance with the provisions of 807 KAR 5:011, Section 8(5). At the time publication is requested, LG&E shall forward a duplicate of the notice and request to the Commission.

4. LG&E shall, by the date set forth in Appendix A, file the information requested in Appendix B, attached hereto and incorporated herein, along with its prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the review period. In addition, LG&E shall file testimony on the issue of calculating E(m) on a retail only basis, as required in Case No. 95-455.³

³ Case No. 95-455, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company as Billed from May 1, 1995 to October 31, 1995, final Order dated April 10, 1996, ordering paragraph number 6.

5. All requests for information and responses thereto shall be appropriately indexed. All responses shall include the name of the witness who will be responsible for responding to questions related to the information, with copies to all parties of record and an original and 10 copies to the Commission.

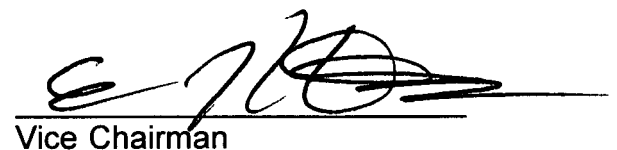
6. The AG and KIUC are granted full intervention in this proceeding.

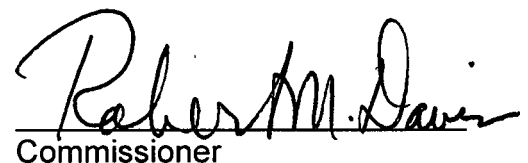
7. LG&E's monthly environmental surcharge reports and supporting data for the review period shall be incorporated by reference into the record of this case.

Done at Frankfort, Kentucky, this 27th day of June, 1996.

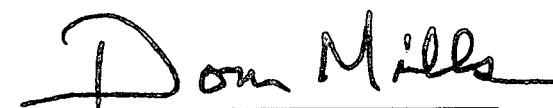
PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 96-290 DATED 6/27/96

LG&E shall serve responses to the information request in
Appendix B no later than 07/11/96

All additional requests for information to LG&E shall
be served no later than 07/25/96

LG&E shall serve responses to additional requests for
information no later than 08/06/96

Intervenor testimony, if any, in verified prepared form
shall be served no later than 08/20/96

All requests for information to Intervenors shall be
served no later than 09/05/96

Intervenors shall serve responses to requests for
information no later than 09/19/96

Last day for LG&E to publish notice of hearing date 09/20/96

Public Hearing is to begin at 10:00 a.m., Eastern Daylight
Time, in Hearing Room 1 of the Commission's offices at
730 Schenkel Lane, Frankfort, Kentucky, for the purpose
of cross-examination of witnesses of LG&E
and Intervenors 09/27/96

Briefs shall be filed by 10/25/96

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 96-290 DATED 6/27/96

INITIAL INFORMATION REQUEST

1. Prepare ES Forms 4.0, 4.1, and 4.2 as identified in Appendix B to the April 6, 1995 Order in Case No. 94-332, reflecting the format modifications ordered in Case No. 95-455, for the billing period November 1995 through April 1996. The amounts reported on these forms should reflect the Commission's decisions announced in prior six-month environmental surcharge reviews. Include any supporting workpapers, assumptions, or other documents as necessary.

2. For each month in the billing period November 1995 through April 1996, provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts LG&E has reported for Pollution Control Deferred Income Taxes.

3. Refer to ES Form 2.2, Plant, CWIP, and Depreciation Expense, for February 1996.

a. For each project listed, indicate the percentage of completion as of February 29, 1996.

b. For each project still in progress as of February 29, 1996, indicate whether the project was on schedule, behind schedule, or ahead of schedule. Provide the expected completion date if different from information filed in the Case No. 94-332 application.

4. In its April 6, 1995 Order, the Commission required LG&E to deduct \$12,588,441 from eligible pollution control plant in service and \$3,095,533 in

accumulated depreciation. These amounts represented environmental compliance plant in service retired or to be retired due to the implementation of LG&E's compliance plan. The retirements constituted costs already included in existing rates.

a. During the review period, has LG&E experienced any additional retirements of environmental compliance plant in service?

b. If yes to part (a), provide the following information:

- (1) The month of the retirement.
- (2) The amount of plant in service retired.
- (3) The amount of accumulated depreciation associated with the plant retired.
- (4) The amount of associated pollution control deferred income taxes.
- (5) The amount of associated pollution control deferred investment tax credits.
- (6) The annual amount of depreciation expense, taxes, and insurance related to the retirement.
- (7) The project in the approved compliance plan which resulted in the retirement.

5. During the review period, LG&E has included \$459,525 in permitting fees in its surcharge calculations. Provide a schedule identifying the agencies paid the permitting fees.

6. During the review period, LG&E has reported gross proceeds from scrubber by-product sales of \$47,757, but related sales expenses of \$143,053, for a net proceeds of a negative \$95,296. In two of the six months, LG&E reported sales expenses but no corresponding gross proceeds.

a. Prepare a schedule showing the scrubber by-product sales for each expense month during the review period. Identify the by-products that were sold and the entities that purchased the by-product. Describe the sales expenses incurred in selling the scrubber by-products.

b. Explain how LG&E incurred sales expenses in the expense months of October 1995 and January 1996, but reported no corresponding gross proceeds.

c. Identify and explain the circumstances LG&E has experienced during the review period which has resulted in a negative net proceeds from the sale of scrubber by-products.

7. In its April 10, 1996 Order in Case No. 95-455, the Commission ordered LG&E to file testimony in this proceeding on the issue of calculating E(m) on a retail only basis. If not covered in testimony, describe the revisions LG&E believes would be necessary to accomplish such a modification. Also explain how the suggested revisions would result in a reasonable allocation to retail customers of the monthly total company environmental surcharge revenue requirement.

8. According to the 1994 Annual Report to Shareholders by LG&E's parent, on May 24, 1993, the Federal Energy Regulatory Commission ("FERC") gave final

approval for market-based rate tariffs filed by LG&E. The market-based tariffs enable LG&E to sell up to 75 MW of firm generation and an unlimited amount of non-firm power at market-based rates, as long as the power is from LG&E's own generation resources.

a. Would LG&E agree that the existence of market-based rates for some of its FERC-jurisdictional sales impacts the assumption that revenues can be used as a basis to allocate costs between retail and wholesale customers? Explain the response.

b. Would LG&E agree that the existence of market-based rates for some of its FERC-jurisdictional sales impacts the assumption that revenues can reflect the recovery of costs by jurisdiction? Explain the response.

c. Prepare a schedule showing LG&E's wholesale monthly revenues resulting from its FERC-approved market-based rate tariffs for the period September 1995 through and including April 1996. In addition, for each month provide the percentage of Total Company Revenues represented by the FERC-approved market-based rate tariffs.

9. Prepare a schedule showing LG&E's monthly sales in KWH and KW, showing the sales as either Kentucky retail or FERC wholesale. Provide the monthly information for the period January 1995 through and including April 1996. Provide supporting documentation and include an explanation of any assumptions necessary for the schedule preparation.

10. Provide the following financial information for LG&E's Kentucky retail and FERC wholesale activity. Provide supporting documentation and include an explanation of any assumptions used in preparing the financial information.

- a. An annual electric income statement for calendar year 1995.
- b. LG&E's average cost of generation for 1995 in cents per KWH.

11. a. For the period September 1995 through and including April 1996, compare the monthly percentage that LG&E's Kentucky retail revenues represented of LG&E's total company revenues with the monthly percentage that LG&E's Kentucky retail KWH sales represented of LG&E's total company KWH sales.

b. Given FERC's approval of the market-based rate tariffs, would it be appropriate to allocate LG&E's environmental surcharge on the basis of KWH sales rather than revenues? Explain the response.